BOURNER BULLOCK
Chartered Accountants

JPA INTERNATIONAL

ICAEW CHARTERED ACCOUNTANTS

CIOT CHARTERED TAX ADVISERS

A member of the JPA International network of independent accountancy firms. Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales. Registered with the Chartered Institute of Taxation as a firm of Chartered Tax Advisers.

Sovereign House
212-224 Shaftesbury Avenue
London
WC2H 8HQ
Tel: +44 (0) 20 7240 5821
Fax: +44 (0) 20 7240 5827

Web: www.bournerbullock.co.uk
Email: bb@bournerbullock.co.uk

TAX MATTERS

October 2019 inside this issue...

- Keeping pace with property tax changes
- HMRC applies brakes to domestic reverse charge
- Dissecting the new Plastic Packaging Tax
- Tax Round-up
- Tax Tip
- Reminders for your diary

Off-payroll changes: are you prepared?

From 6 April 2020, a major shake-up of the off-payroll (IR35) rules is expected. Draft legislation has already been published, though final details and HMRC guidance are still to come.

The new regime will affect you if you work via your own personal service company (PSC). Off-payroll workers should be aware that their clients are likely to investigate the profile of the contractor workforce more closely than before, as part of a general review of compliance, strategy and spend. However, the changes could be felt more widely. Anyone supplying personal services via an 'intermediary' could be within the scope of the IR35 rules. An intermediary can be an individual, a partnership, an unincorporated association or a company.

Will you be affected?

The change could impact you if you supply personal services to large and medium organisations in the private and voluntary sector. If the client is a 'small' business, the rules are unchanged. A company is considered 'small' if it meets two of these criteria:

- its turnover is not more than £10.2 million
- it has not more than £5.1 million on its balance sheet
- it has 50 or fewer employees.

If your contract is with an unincorporated organisation, the new rules only apply if its annual turnover is more than £10.2 million.

Determining employment status

Under the new rules, responsibility for making the decision as to whether IR35 rules apply passes to the business you contract for. The key question is whether, if your services were provided directly to that business, you would then be regarded as an employee. You may be used to this if you undertake contracts in the public sector, where similar provisions already exist. HMRC has an online 'check employment status check tool' (CEST), which can be found at **www.gov.uk/guidance/check-employment-status-for-tax**, and undertakes to stand by the results if information provided is accurate, and given in good faith. It can be used by you or your client, although, at present, HMRC considers it is unable to determine status in 15% of cases. Many commentators consider the failure rate to be much higher. HMRC is working to improve the CEST tool with the forthcoming changes in mind.

In the future, your client will have to give you the reasons for its status decision in a 'Status Determination Statement' (SDS). If you disagree, you can challenge the status determination with the business, and it should respond within 45 days, either withdrawing or upholding the decision, again supplying reasons.

Looking to the future

Significant tax implications arise if IR35 applies, as the business or agency paying you will calculate a 'deemed payment' based on the fees charged by your PSC. Broadly, this means you are taxed like an employee, receiving payment after deduction of Pay as You Earn (PAYE) and employee national insurance contributions (NICs). If you operate via a PSC, the PSC will receive the net amount, which you can then receive without further payment of PAYE or NICs. The potential tax advantages of working under such a contract – especially for PSCs – are much reduced.

This is a good time to take stock of your options. Are clients likely to query your employment status? Should you consider restructured work arrangements, or renegotiating fees? If working via a PSC, is it still the best business model? With clients checking that contracts comply with the new rules, employment status for contractors is likely to come under increasing scrutiny across the board.

We would be delighted to talk through your options and the tax consequences. For those working only for small private sector clients where contracts do not fall under IR35, we are always happy to review your profit extraction strategy. Please do get in touch.

Keeping pace with property tax changes

Disposing of property? There are important tax changes on the horizon. The date to keep in mind is 6 April 2020. Disposing of a property on or after this date means you will need to factor in new capital gains tax (CGT) rules.

Broadly speaking, private residence relief (PRR) means there is usually no CGT to pay on the sale or disposal of your main or only residence. To 'better focus' PRR on owner-occupiers, the 2018 Budget announced changes to the final period exemption and lettings relief. You may want to consider your affairs now in the light of these changes.

Taking a look at the final period exemption

Currently, the final period exemption means you are not usually liable to CGT for the last 18 months of ownership, even if you don't actually live there. This was intended to provide protection for someone moving to a new main residence when there was difficulty selling the original home. However, from April 2020, the final period exemption will be cut to nine months. The change could create CGT consequences for significantly higher numbers of property transactions. If buying a new property before selling the old, it will be important to try to sell within nine months to avoid a possible CGT bill.

There is an exception for those in, or moving into, care home accommodation, or those with a disability. Provided they or their spouse do not own any other residences there is a final 36-month deemed occupation period, which is not changing.

A word on lettings relief

At present, lettings relief gives up to £40,000 relief (£80,000 for a couple who jointly own the property) for someone letting part, or all, of a property which is their main residence, or was the former main residence at some point in their period of ownership. But, under the new regime, lettings relief will only be available where you jointly share occupation with a tenant. These new rules will apply for disposals from 6 April 2020, regardless of when the period of letting took place, even if before April 2020. This is likely to considerably reduce its scope.

We have only been able to provide an overview of the new rules here, and complexities can arise. Examples include periods of absence from a main residence, or ownership of more than one property. Please do talk to us for advice on your individual circumstances.

Changes from 2020

From 6 April 2020, there is also a major change to the deadlines for paying CGT when disposing of a residential property. This may apply when a second home, an inherited property, or a rental property is sold or otherwise disposed of. Individuals, trustees and personal representatives should all be aware of the forthcoming change.

In future there will be a 30-day window after the completion date for the property disposal to file a return, and calculate and make payment on account of the CGT bill. This changes the current procedure, with payment made as part of the self-assessment cycle, and CGT payable by 31 January of the tax year following the year of disposal. If no payment is due, reporting will not be required. This would be the case if, for example, PRR is available in full.

The change mirrors current obligations of non-UK residents. Since 6 April 2019, non-resident CGT has applied to direct and indirect disposals of UK land or property, whether commercial or residential, with non-resident companies being chargeable to corporation tax. There is a 30-day reporting requirement, even if there is no tax to pay. Where tax is due, it must be paid within 30 days of completion. The charge to CGT on gains from the Annual Tax on Enveloped Dwellings (ATED) has been removed.

Tax and property are complicated, and it is always prudent to discuss the potential tax implications of any property transaction. For peace of mind, please do not hesitate to contact us.

HMRC applies brakes to domestic reverse charge

HMRC has announced a one-year delay to the introduction of the VAT domestic reverse charge (DRC) for building and construction services. The DRC was set to come into effect on 1 October 2019. It has now been pushed back 12 months to 1 October 2020, due to fears that businesses in the construction sector are not yet ready.

The DRC does not change the VAT liability: it changes the way that VAT is accounted for. In future the recipient of the services, rather than the supplier, will account for VAT on specified building and construction services.

This major change entails adaptation to invoicing and accounting systems, and a negative impact on cashflow for suppliers.

The DRC is a business-to-business charge, applying to VAT-registered businesses where payments are required to be reported through the Construction Industry Scheme (CIS). It will be used through the CIS supply chain, up to the point where the recipient is no longer a business making supplies of specified construction services. The rules refer to this recipient as the 'end user'.

Broadly, the DRC means that a contractor receiving a supply of specified construction services has to account for the output VAT due – rather than the subcontractor supplying the services. The contractor will then be able to deduct the VAT due on the supply as input VAT, subject to the normal rules. In most cases, no net tax on the transaction will be payable to HMRC.

Overall, the change may mean that the construction sector is likely to be subject to considerable HMRC scrutiny in the foreseeable future. Under the rules, for example, some subcontractors, with VAT to reclaim on inputs but no VAT to charge on outputs, will regularly receive VAT refunds. A regular repayment position could trigger a VAT inspection.

The government cites concern that some businesses are not yet ready to implement the change – and possible coincidence with Brexit – as the reasons for the delay.

Where businesses have changed their invoicing to be DRC-compliant and cannot reverse this in time, HMRC will take the change in implementation date into account should genuine errors occur. Businesses which have now adopted a monthly VAT return cycle, in order to mitigate any cashflow disadvantage, can change back to quarterly reporting during the interim if they prefer.

If you would like assistance, please do contact us. Despite the delay, the government is still committed to the DRC, and businesses which have not yet assessed how they need to comply should still do so.

Dissecting the new Plastic Packaging Tax

The government is set to introduce its so-called 'Plastic Packaging Tax' in 2022. Here, we take a look at the new tax and consider how it could affect certain businesses.

Outlining the tax

The government wishes to encourage the 'responsible use of plastic' amongst UK manufacturers.

Introduced in the 2018 Spring Statement, the Plastic Packaging Tax will affect plastic packaging containing less than 30% recycled material. In March 2018, the government launched a call for evidence on the matter, which received a record 162,000 responses – highlighting 'strong public interest in action' on the matter. As a result, the government later consulted on the design of the Plastic Packaging Tax, and how best to implement it without causing 'administrative disruption'.

The government found that using recycled plastic is often more expensive than using new plastic, despite it being better for the environment. Plastic packaging accounts for 44% of all the plastic used in Britain, and the UK generates more than two million tonnes of plastic packaging each year. According to the government, the Plastic Packaging Tax will be set at a rate that provides a 'clear economic incentive' for businesses to use recycled material in the production of plastic packaging. The government hopes that this, in turn, will create greater demand for this material, and 'stimulate increased levels of recycling and collection of plastic waste, diverting it away from landfill or incineration'.

The government intends to set out its next steps in relation to the Plastic Packaging Tax at the 2019 Budget.

Considering its effects on businesses

Small businesses have warned the government that the new tax could place 'additional burdens' on them, which would require extra funding. Additionally, the tax could lead to increased costs for firms, which could potentially be passed on, at least in part, to the consumer.

A small number of consultation respondents suggested that the Plastic Packaging Tax could also affect older people or individuals with disabilities, as manufacturers could be required to change the materials used in current packaging to those which are 'harder to open'. One respondent stated that the tax could 'affect the ease of opening medicine', such as blister packs.

Businesses have until April 2022 to adapt their processes before the introduction of the Plastic Packaging Tax. The government stated that this will give them time to 'adjust their behaviour' and help them to manage any potential extra costs they may face.

The Plastic Packaging Tax will undoubtedly affect a significant number of businesses. As always, we will be keeping you up-to-date on all the latest developments in regard to the tax.

CIOT, IFS and IfG urge Chancellor to 'take a new approach to making tax policy'

The Chartered Institute of Taxation (CIOT), the Institute for Fiscal Studies (IFS) and the Institute for Government (IfG) have urged Chancellor Sajid Javid to 'take a new approach to making tax policy'.

The groups have co-signed a letter to the Chancellor, in which they urge him to outline the principles and objectives that will inform his tax policy.

In the letter, the groups called for the Chancellor to 'consult on tax policies at an earlier stage in policy development', and to 'professionalise tax policy-making in the Treasury'. They also urged the Chancellor to confirm that there will be 'no going back' to the 'old days of multiple fiscal events'.

Additionally, the groups have called for the Chancellor to 'consult earlier with a wide group of stakeholders' on tax matters, and to carry out a 'more systematic evaluation of tax measures', including tax reliefs. Tax measures must be effectively reviewed to ensure they are 'achieving their objectives at acceptable cost', the groups added.

New OTS project aims to explore simplifying tax reporting for the self-employed

The Office of Tax Simplification (OTS) has launched a new project, which aims to explore how tax reporting and payment arrangements for self-employed people can be simplified.

Introducing the project, the OTS stated: 'The OTS has heard that some, including some of those working freelance or in the gig economy, would welcome the option to report information and pay tax to HMRC periodically or on the completion of work assignments, rather than only through self-assessment.'

The OTS intends to explore options concerning information reporting and paying tax in or closer to real-time, which could 'make it simpler for people who are self-employed or receive private residential property income to meet their tax obligations in a practical and streamlined way'.

In the report, the OTS said that it understands that self-employed individuals 'work in diverse ways and contexts'. As a result, it is 'quite possible' that there will not be one single approach to simplifying tax reporting. The OTS intends to give consideration to the merits of having different approaches for different groups, or creating one overall system with sub-options.

The OTS will publish an initial paper on the matter in the autumn.

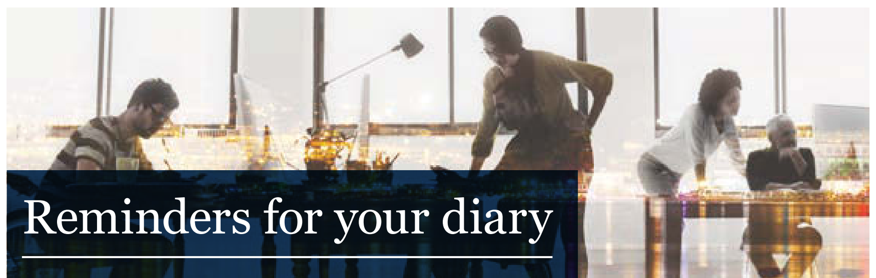
Tax Tip

Minimising your national insurance contribution (NIC) liability

NICs are essentially a tax on earned income. The NICs regime divides income into different classes: Class 1 contributions are payable on earnings from employment, while the profits of the self-employed are liable to Class 2 and 4 contributions.

Many strategies for saving NICs are available to business owners. An employer may wish to increase the amount they contribute to company pension schemes; make use of share incentive plans; or disincorporate and operate as a sole trader or partnership. Business owners could also opt to pay a bonus to reduce employee NICs, or pay themselves dividends instead of bonuses.

We can help you to minimise your NIC liability. Please get in touch for more information.



November 2019

2 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 October 2019.

19 PAYE, Student loan and CIS deductions are due for the month to 5 November 2019.

December 2019

1 New Advisory Fuel Rates (AFR) for company car users apply from today.

19 PAYE, Student loan and CIS deductions are due for the month to 5 December 2019.

30 Online filing deadline for submitting 2018/19 self assessment return if you require HMRC to collect any underpaid tax by making an adjustment to your 2020/21 tax code.

31 End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 December 2018.

January 2020

1 Due date for payment of corporation tax for the period ended 31 March 2019.

14 Due date for income tax for the CT61 quarter to 31 December 2019.

19 PAYE, Student loan and CIS deductions are due for the month to 5 January 2020.

PAYE quarterly payments are due for small employers for the pay periods 6 October 2019 to 5 January 2020.

31 Deadline for submitting your 2018/19 self assessment return (£100 automatic penalty if your return is late) and the balance of your 2018/19 liability together with the first payment on account for 2019/20 are also due.

Capital gains tax payment for 2018/19.

Balancing payment – 2018/19 income tax and Class 4 NICs. Class 2 NICs also due.

This newsletter is for guidance only, and professional advice should be obtained before acting on any information contained herein. Neither the publishers nor the distributors can accept any responsibility for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication.